

# **REGIONAL OUTLOOK**

**Southeast Asia  
2001–2002**

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**Southeast Asia  
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# PREFACE

**R***egional Outlook* was first launched in 1992. Designed for the busy executive, professional, diplomat, journalist, and interested observer under severe time constraints, this annual offers a succinct analysis of political and economic trends in the countries of Southeast Asia and the outlook for the prospective two years.

In this endeavour, it is impossible not to be overtaken by events. An analysis such as this serves best when it indicates patterns of development, offers some insight into the unfolding complex dynamics, and puts its finger on emerging issues and areas of change. In this way *Regional Outlook* should provide the necessary background for the reader to interpret new information and data.

The year 2000 was another year of gradual recovery for the region, assisted by robust global economic performance. Although all the countries of Southeast Asia have returned to positive economic growth rates, fragilities remain in the corporate and banking sectors. In addition, anxieties surrounding political instability in Indonesia and the Philippines continued to impact adversely on perceptions of the region.

*Regional Outlook 2001–2002* was written by a team from within the Institute and without. We thank Rajenthiran Arumugam, Derek da Cunha, Nick J. Freeman, John Funston, A.V.M. Horton, David Koh, Alexander R. Magno, Mya Than, Lee Hock Guan, Lee Poh Onn, Sakulrat Montreevat, Anthony L. Smith, and Tin Maung Maung Than for their contributions. We also thank Daljit Singh and Nick J. Freeman for editing the volume.

Professor Chia Siow Yue  
*Director*  
*Institute of Southeast Asian Studies*

1 November 2000

# INTRODUCTION

For Southeast Asia the year 2000 was marked by a generally favourable external backdrop. World economic growth was robust. In the Asia-Pacific region, China's impending membership of the World Trade Organization (WTO) was seen as propitious for both business and security. The *rapprochement* between the two Koreas was helping to ease tensions on that peninsula and held the potential for removing one dangerous flashpoint in East Asia, even if it also created some uncertainties about the longer-term character of U.S. military deployments in the Western Pacific.

The situation in the Taiwan Straits, after Chen Shui-bian's election as President, was dangerous, but nevertheless reasonably well managed. All three parties — China, Taiwan, and the United States — understood the dire consequences of armed conflict, though the risk of miscalculation remained.

Notwithstanding this relatively benign external environment, Southeast Asia in 2000 presented a very mixed picture. The euphoria of economic recovery felt in 1999 was increasingly being dissipated by the realities of slow progress in bank and corporate restructuring and ongoing concerns about political stability. This was reflected in the performance of Southeast Asian stock markets which, having overextended themselves in 1999, adjusted downwards in 2000. The region's currencies were also weakened by political woes in 2000, especially problems in Indonesia and the Philippines.

While a repeat of the 1997–98 crisis can be discounted, the region remains vulnerable to externally induced shocks. Such shocks might potentially include a bumpy landing for the U.S. economy, a pronounced downswing in the electronics sector cycle, or the withering of the green shoots of economic recovery in Japan.

Unfair or not, the perception that ASEAN lacks dynamism and unity of purpose has not gone away, especially in view of the difficult situation in its key member, Indonesia. Persistent perceptions of drift in ASEAN could prove perilous for business, given China's impending entry into the WTO and its increasing allure as a rival destination for foreign direct investment inflows.

Overall, the external environment in 2001–2002 could be more challenging than in 2000. U.S. GDP growth and world output are forecast to be lower. Strategic relations between the major powers could be more uncomfortable as a new U.S. president tries to settle in office and as China approaches leadership changes in 2002. Within Southeast Asia, Indonesia's prospects continue to be uncertain.

Different authors have contributed to this volume and we would like to thank them for their contributions.

Daljit Singh

Nick J. Freeman

*Editors*

1 November 2000